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ABSTRACT

This discussion places the ten years of the war on poverty in perspective and, on the basis of both the experiment in policy intervention and some recent trends, speculates on the nature and course of social policy over the next decade. The basis of and motivations for the war on poverty are reviewed as the primary concern of the first part of this discussion. The premises used to justify the strategies chosen are recounted, and the progress against poverty during the 1965-1975 decade is appraised. A proposition this paper explores is that many important policy developments affecting the poor during this decade were not found on the agenda of the war on poverty planners in the sixties. While poverty was reduced, it is difficult to directly attribute this result to those programs that played an explicit part in the war. The second part of this paper comments on some recent developments in the nation's political and social structure and reflects on the legacy of past social policy, serving as the basis for a few speculations on the future course of social policy. It is held that increased attention to the implifications of such underlying changes may well be the appropriate response of social scientists disillusioned over the failure of planned social change and the naive belief in the power of rational public policy. (Author/JM)

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Poverty, Income Distribution, and Social Policy: The Last Decade and the Next

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Abstract

As one of its legacies, the war on poverty has served to remind us of the difficulty of effectively planning or, indeed, accurately anticipating the course of social policy. During the 1965–1975 decade, numerous federal government policies were planned and undertaken as part of the war on poverty. The office of Economic Opportunity (OEO) implemented other policies with the objective of aiding low-income people, although not as an explicit part of the plans and actions of that organization. Rapid changes occurred in still other policy-making organizations affecting the poor, but not as a result of either executive branch planning or legislative initiative. Many of these changes and their effects were largely unanticipated. While several of the measures explicitly designed to reduce income poverty proved ineffective, some of the unanticipated and unplanned changes were potent in increasing the economic welfare of those at the bottom of the income distribution. The net result was a substantial reduction in poverty over the decade.

This discussion will place the ten years of the war on poverty perspective and, on the basis of both the experiment in policy intervention, and some recent social trends, the paper will speculate on the nature and course of social policy over the next decade.

The basis of and motivations for the war on poverty are reviewed as the primary concern of the first part of this discussion. The premises used to justify the strategies chosen are recounted, and the progress against poverty during the 1965-1975 decade is appraised. A proposition this paper explores is that many important policy developments affecting the poor during this decade were not found on the agenda of the war on poverty planners in the 1960s. Indeed, many of the crucial developments were not and could not have been anticipated at the inception of the war on poverty. Hence, while poverty was reduced during the decade, it is difficult to directly attribute this result to those programs that played an explicit part in the war. Credit must also be given to other changes, perhaps enabled and encouraged by antipoverty policies, though not a central part of those policies. Part 2 of this paper comments on some recent developments in the nation's political and social structure and reflects upon the legacy of past social policy, serving as the basis for a few speculations on the future course of social policy. These speculations reflect but one view of the future implications of some recent social and political trends. Increased attention to the implications of such underlying changes may well be the appropriate response of social scientists disillusioned over the failure of planned social change and the naive belief in the power of rational public policy.[1]

1. Basis of and Motivations for the War on Poverty

Several forces contributed to the origin of the war on poverty: (1) compassion stemming from abysmal hardship evident in the pockets of the population identified by geography, culture, and race; (2) embarrassment over the

inconsistency of this hardship with the image of U.S. affluence; (3) fear regarding the potential for violence and disruption inherent in such inequality; (4) excitement stimulated by the call for progressive new policies by an administration with "liberal" inclinations (or at least rhetoric); and, (5) faith in the efficacy of social planning stimulated by social scientists and other academics whose public respect and influence was at its zenith. To disentangle these forces, or to order them, is an almost impossible task. Interestingly, except for a general concern with unemployment and the economic position of blacks generated by the civil rights movement, there was no organized interest group demanding new programs for the poor. Similarly, there was no history of party platforms that had addressed this problem with high priority. And, there was no apparent surge of public opinion designating poverty as the central domestic policy problem. A number of writings appeared in the early 1960s that did influence the climate of public opinion. Of them, Michael Harrington's The Other America and Dwight McDonald's New Yorker are examples. However, these writings and others, appear to have mainly motivated upper-middle-class whites.

Due, in part, to the nature of these origins and existing conditions, the war on poverty developed as it did. Perhaps because no organized interest group representing the poor demanded direct subsidization, and perhaps because social scientists dominated OEO policy planning efforts, the strategy adopted by the war on poverty was premised on the view that the problem was basically one of low labor market productivity. The poor were viewed as being in that state because they did not work enough or work hard enough, or because their skills and qualifications were insufficient to raise them out of poverty even if they did work hard.

This condition, in turn, was attributed to the lagging state of the economy, the basic characteristics of the poor, and discrimination against these characteristics by those who controlled access to jobs or goods and services. All of these factors represented fundamental problems of the American economy. Hence, it was argued that any truly effective policy would have to strike at these root causes. Policy to reform or expand the system of income transfers might reduce the maldistribution of income and improve the economic welfare of the poor; however, it would not alter these structural deficiencies. The remedy required overt policy measures by the federal government designed to improve the performance of the economy, the productivity characteristics of the poor, and the attitudes (or at least the behavior) of those who hired or sold to the poor.[2]

Revitalization of the nation's economy was given the highest priority on the government's list of antipoverty measures. Policy planners attributed the high unemployment and low labor force participation by the poor to a lagging economy rather than a problem of poverty, unwilling to concede that the poor's desire to work was less than that of the nonpoor. It was at this time that the "full employment gap" and "fiscal drag" became a part of the President's vocabulary and fiscal stimulus in the form of a massive tax cut was viewed as the way to increase the nation's rate of economic growth, reduce unemployment, and eliminate the gap in hours worked (and, perhaps, wage rates) between the poor and nonpoor. The policy-generated increase in aggregate demand and income would "trickle-down" to the poor. Accelerated economic growth was to be a key weapon in the war on poverty: hence, the Tax Cut of 1964.

To gauge the progress made in securing this increase in the income of poor families, measures of income poverty were developed. These measures established an absolute income cutoff for families of various sizes and locations and were adjusted annually for price-level changes. In 1964, 13 percent of all U.S. families and 17 percent of all citizens were found in income poverty: A reduction in this indicator was a key objective on the mid-1960s aggregate demand policy.[3]

However, stimulating aggregate demand would not, by itself, be sufficient to solve the problems inherent in the characteristics of the poor that would require more specific policies aimed directly at them. The gap in work skills between poor and nonpoor would have to be corrected and manpower training, both institutional and on-the-job, required. Hence, the Job Corps, Neighborhood Youth Corps, the Manpower Development and Training Act (MDTA), JOBS, and WIN were either established or scheduled for rapid expansion. In addition to a lack of skills, the poor, in general, had considerably less education than the nonpoor. And, while little could be done to correct this disparity for those cohorts that had already reached working age, better preparation for school, better schooling, and more schooling focused on the children of the poor, would insure that this deficiency would not afflict the children of this generation's poor as it had those of past generations. The result was the initiation of numerous programs such as Head Start, Upward Bound, Follow Through, Teacher Corps, and Title I of the Aid to Education Act. And, since low performance in school and on the job was due to deficiencies in diet, the Emergency Food Aid and the school lunch program was established. Similarly, the debilitating effects

of illness and disability on job performance was reduced by providing the poor with subsidized medical care to improve their access to the health care system and raise their health status toward that of the nonpoor. For this objective, and also because medical care was coming to be regarded as a service not to be allocated on the basis of ability to pay, Neighborhood Health Centers and Medicaid were established to subsidize the medical expenses of welfare recipients and the "medically indigent."

Finally, programs that were more concerned with restructuring the social institutions used by the poor to gain access to jobs and goods and services, and less concerned with the personal traits of the poor were initiated. The Community Action program was established ostensibly to coordinate the wide range of social services being provided by state, local, and private organizations. In fact, its establishment served to reduce the political poverty of low-income groups and racial minorities. By granting the poor increased participation in the decisions of agencies that allocated goods and services, access to these services was increased. Moreover, this increased participation enabled the poor to alter the composition of services available and more clearly perceive how institutional change could be encouraged by political action. In addition, the Legal Services program was established to both enhance the flow of services to the poor, and enable the poor and their advocates to influence the structure of institutions dispensing goods, services, and jobs. Legislation to insure equal opportunity in employment and housing (though somewhat belated and not terribly effective) was also viewed as an effort to alter the behavior, if not the attitudes, of institutions controlling access to markets for jobs, goods, and services.

This menu of programs represents part of the government's effort to win the war on poverty. Nearly every hypothetical assumption concerning why the poor performed weakly in the labor market was reflected in some program. Taken as a whole, the programs reflect the judgement that public measures could alter both the performance of the economy and the characteristics of the poor and, thereby, improve their economic status. More labor demand, combined with a socially augmented increase in earnings capacity, was the primary strategy. Increased political participation and advocacy leading to the restructuring of political and social institutions was a secondary strategy. In the mid-1960s no major direct income redistribution program was proposed by the President or implemented by Congress--no major increase in income transfers to the poor, no system of demogrants, no family allowances, no negative income tax.[4] There was no proposal for implementing a major, direct attack on structural weaknesses in the labor market. Efforts that insure equal opportunity in employment form the only measure designed to increase the employment and earnings of the poor by explicitly increasing the demand for their services.

Parallel with this planned attack on poverty was another set of efforts. While this second set of measures was not an explicit part of the war on poverty, it was related to and perhaps induced by it.

One of the results of the war on poverty was that no government agency and no congressional committee was free from the persistent query posed regarding policies under their jurisdiction: "What does it do for the poor?" Indeed, answering this question became an

important function of OEO, located in the Executive Office of the President. As a result, the political viability of any proposed measure was enhanced if advocates could demonstrate that the measure would contribute to the antipoverty objective. And, social program advocates in a large number of areas employed this rationale to good advantage.

Over the course of the decade, the benefits and coverage of the Social Security program were modified to increase the antipoverty impact of the program. To some, these changes compromised the social insurance principle upon which the program was founded, in order to focus on providing more general income support. By the mid-1970s, the food stamp program (begun in 1964 as a program designed primarily to stabilize and support farm commodity prices) became a $5 billion assistance program for all low-income families, irrespective of their work status or the cause of their meager income. In effect, it became a negative income tax for food. Similarly, the evolution of the health policy took on an antipoverty character. In 1965, a long debated program of health care for the aged, Medicare, was passed. Public housing for low-income families, which was a relatively small program before 1965, grew to 2.5 million units by the mid-1970s with an annual budget of more than $2.5 billion. Of the in-kind programs that blossomed during this decade, only one, the Legal Services program, was an integral part of the planned war on poverty. While the programs' passage and rapid growth were facilitated by the national

antipoverty objective, they were neither initially conceived as part of the war on poverty, nor were they within the jurisdiction of OEO.

In addition to the war on poverty programs and the legislated growth of other programs, justified in part on antipoverty grounds, there was a third set of policy developments affecting the poor. Prior to 1965, a number of public assistance programs existed, which provided cash support to particular categories of poor people. The primary ones were Aid to Families with Dependent Children (AFDC) and Aid to the Aged, Blind, and Disabled. Although many changes were made in these programs during the 1965-1975 decade, few were intended by either the President or the Congress to generate increases in program coverage, in real benefit levels, or in the proportion of citizens eligible to receive benefit levels, or in the proportion of citizens eligible to receive benefits.[5] Nevertheless, these welfare programs grew enormously during that decade. This growth, primarily in the AFDC and Aid to the Disabled programs, was neither planned nor anticipated. Federal public assistance expenditures for these two programs increased from $2.7 billion in 1965 to nearly $6 billion in 1974, while total program costs rose from $4.7 billion to nearly $15 billion. The sources of this growth were complex, but included (1) increased leniency on the part of welfare administrators; (2) expanded rights and entitlements stemming from the initiatives of organized groups of recipients and legal rights activists; (3) more liberalized court interpretations of beneficiary rights and entitlements; (4) higher state supplemental benefits; and (5) a reduced stigma

attached to being on welfare. Irrespective of the source, this program growth contributed substantially to the reduction of income poverty. By 1972, these programs contributed $8 billion to the elimination of the poverty gap and, although precise estimates were not available, the figure was likely to have risen to $10 billion by 1975. More than 85 percent of the benefits of these programs accrued to the pretransfer poor. However, it can hardly be claimed that this contribution was part of the vision of antipoverty planners.

As a result of both planned and unplanned developments between 1965 and 1975, the decade witnessed substantial improvement in the economic status of the poor. The economy grew rapidly in the 1960s and the increase in aggregate demand resulted in a significant decrease in the incidence of officially defined poverty. This early decrease has largely persisted, in spite of some increase in official poverty from 1972 to the recession in the mid-1970s. Moreover, even though serious inequality remains, the black-white education and income ratios are higher today than in the early 1960s, and the participation of blacks and other poor groups in the political process has increased markedly. The volume of cash and, in particular, in-kind transfers has experienced unprecedented growth. And, while only the former contributes to a reduction in measured poverty, both have augmented the economic well-being of those at the bottom of the distribution. A recent study has indicated that, if family income is defined so as to include the recipient value of in-kind benefits, the nation can claim to have made substantial advances during the last decade in reducing income poverty.[6]

This conclusion may be misleading; it could be taken to imply the unqualified success of war on poverty policies. But considering the largely negative evaluation of the effect of many of these programs on the incomes of participants (and the lack of effect of increased education and child development programs on cognitive achievement), such an inference would be unwarranted. It would be more accurate to say that while planned antipoverty policies have been responsible for some increase in the productivity and earnings of the poor, other changes that were neither designed nor coordinated as part of the war on poverty, and in many cases, were unanticipated and, on occasion, opposed by policy planners, contributed to poverty reduction.

This conclusion deserves some elaboration for, as stated, it fails to identify the source of these unexpected and unplanned developments. While some policy developments having a substantial antipoverty impact were neither structured nor anticipated by the planners of the war on poverty, no one can know the extent to which these developments were either permitted or prompted by the act of declaring and implementing such a war. Several questions arise. Was the reduced stigma of being on welfare caused by the establishment of a national antipoverty objective itself, or, should it be attributed to the increased leniency of welfare administrators and liberalized court interpretations urged by welfare rights advocates? To what extent was the increased participation of blacks and the poor in conventional politics a side effect of planned antipoverty programs, and how important was this participation on the passage and growth of income-conditioned health, food, and housing services or the expansion of the Social Security system?

The complexity and interdependence of these indirect, unplanned, and unexpected impacts of the war on poverty defy penetration, preventing a full and complete evaluation of that war, though a reasonable appraisal of the results of the war on poverty, might run as follows: While the direct contribution of the war to raising the income of the poor does not appear to have been great, the total effect of that effort on poverty reduction may have been substantial. The extent of a favorable judgement rests on how one interprets subtle and indirect evidence regarding the causes of the unexpected and unplanned developments; in particular their dependence on the announcement of a war on poverty and the implementation of its programs. Given the significant increase in social welfare spending, the income-conditioning of numerous public programs, and the reduction in the incidence of income poverty over the decade, the hypothesis that the full impact of the war on poverty is no larger than its direct effect on the incomes of the poor seems unacceptable. Even though the precise magnitude of the total contribution of the war, direct plus indirect, is and will remain unknown, any final evaluation of success of the war on poverty must be more favorable than is implied by the cost-benefit appraisals of specific antipoverty programs.

2. Developments in This Nation's Political and Social Structure: Past, Present, Future

While the significant role played by the unanticipated makes one hesitant to speculate on the future course of social policy, it would seem

unduly timid to refrain from exploring some implications of a few recent developments. These developments reflect the nature of social policy during the 1965-1975 decade, as well as other trends in attitude and demography not related to past policy, but in no way exhaust the set of important social and political trends. Yet, taken together, these developments would seem to have implications for the likely evolution of social policy in the late 1970s and 1980s. In particular, because of these fundamental changes in attitude and demography, the focus of forthcoming social policy debates will tend to shift away from income poverty and toward a concern with the disparity in economic status between groups in this society. As has been noted, the primary question put to policy proposals during the last decade has been, "What will it do for the poor?"[7] In the next decade the question put to such proposals is likely to be "How will its benefits and costs be distributed among high- and low-income groups?" And concern with the "nature, causes, and cures of poverty" will be augmented by concern with the "nature, causes, and cures of opulence."

Because of this shift in focus, proposals designed to modify income and wealth extremes at both ends of the distribution will be at the center of the social policy debate, and the performance of the labor market, the primary income-generating mechanism, will come under increased scrutiny. And we should expect policies designed to alter and supplement the functioning of that market and the income distribution that it yields to be put forth and debated. Similarly, the structure of the public tax-transfer system and its effectiveness in eliminating income

and wealth extremes will be questioned. Programs relating to wealth or accession taxation, increased effective income-tax rates (due to the elimination of special provisions in the tax code favoring those with high incomes), and the substitution of a comprehensive national income-support policy for the existing melange of assistance programs are likely to attract a good deal of support as effective instruments for reducing economic inequality.

What then are the developments that are likely to stimulate concern with income disparities as opposed to income poverty? The first development has already been touched upon. Because of the rapid growth in cash and in-kind transfer programs,[8] income poverty as conventionally defined, is no longer the serious problem it was in the early 1960s. With a concept of family income altered to include the recipient value of in-kind transfers and corrected for income underreporting and interfamily transfers, the incidence of income poverty has been markedly reduced since 1965. Using corrected figures, it is likely that in 1975 fewer than 5 percent of all household units fell below the official poverty line.

In addition to the realization that substantial progress against absolute poverty has been made, there is a second development concerned with income disparities. In spite of the enormous growth in income-conditioned transfer and social welfare expenditures in the 1965-1975 decade, the nation's money-income distribution has not become notably more equal. In retrospect, income-support policies have served only to offset the increasing inequality in the distribution of earned income.[9] Because of the apparent secular tendency of the labor market to increase the spread between high- and low-earnings recipients, a

growing social welfare budget appears necessary simply to prevent a deterioration in the existing, highly unequal, distribution of final income.[10]

The cause of a third development in income disparity is related to the increasing inequality in the distribution of earned income. Stemming from a variety of reasons, recent years have witnessed the beginning of two demographic changes, which are likely to continue over the next decade: Both changes are rooted in a growing desire for individual independence, and both tend to exacerbate the existing inequality in the distribution of income.

The first change, at least in part related to the women's movement, is the growing labor force participation of married women, (in particular, women from middle- and upper-middle-income families). When the additional income generated by these new labor force participants is added to that of their spouses, which in many cases was already sufficient to place the family well up in the income distribution, these living units will move even further into the upper tail of the distribution, increasing the spread between rich and poor.[11] Moreover, in a lagging economy, this increased flow of female labor force participants, with substantial education and earnings capacity, will tend to displace some male employment in the lower- or lower-middle-skill ranges. To the extent that those displaced are from family units in the lower tail of the distribution, a further stimulus to inequality is provided.

The second demographic change is reflected in the changing patterns of family structure. Among the old and the young, there has been an increasing tendency to both maintain separate and independent

living units where they presently exist, and to create separate units where coupling exists. Increasingly, unmarried individuals below 25 years of age, many of whom are students, are establishing living arrangements independent of their parents. Similarly, perhaps because of the increasing benefit levels of social security and other transfer programs, elderly couples and individuals are retaining independent living quarters until more advanced ages, or are substituting independent living arrangements in nursing or retirement homes for residence in the homes of children. Further, recent years have seen rising rates of divorce and separation leading to an increase in the proportion of female-headed families. The uncoupling living arrangements from all of these sources has generated an increase in measured inequality. In many cases, a living unit is created (or maintained) with a modest income level, leaving a pair of units--one with a relatively high income and the other with a relatively low income--in place of a single high-income unit. Continuation of the trends increasing the labor force participation of married women and increasing the tendency for the uncoupling of living units, will lead to increasing measured inequality in the distribution of income.[12]

A final consideration must also be mentioned. While setting an antipoverty test for all policy proposals may seem an appropriate way to reflect this objective in social decisions, it fails to recognize that the primary basis for collective action in some functional areas is to correct for inefficiency and market failure in the private sector. Collective action in these areas (e.g., transportation policy, water resource and energy development) is motivated by the consideration of public goods, externalities, and other problems of private markets,

and little consideration is given the desire to reduce poverty. Because economically efficient policy measures in these areas often fail to assist the poor, the universal application of an antipoverty test leads to the sacrifice of efficient policy strategies in favor of less effective, but presumably more equitable, measures. Hence, in transportation policy, air and water pollution control policy, energy policy, higher education policy, and natural resources policy--to mention only the primary cases--ineffective strategies involving public rule-making or public subsidies have dominated efficiency-based measures, typically involving the use of publicly set fees and charges.[13]

It is reasonable to suggest that the increasing concern with "public market failure" reflects a perception that such subsidy and rule-making policy measures are both ineffective and wasteful. This source of dissatisfaction with government performance, then, rests on the failure of the public sector to directly resolve the income distribution problem. The subsequent strategy of seeking to accomplish equity goals indirectly through inefficient subsidy and rule-making measures has contributed to the proliferation of ineffective policy, and to a growing skepticism toward "government." Recognition of this source of "public market failure" argues for a more direct resolution of the inequality issue that would thus free policymakers from seeking to reduce inequality simultaneously by improving the allocation of the nations resources.[14]

Because of these four considerations, there would seem to be some basis for the speculation that in future years economic inequality will replace income poverty as the primary social problem, and that a direct

attack on this problem will be perceived as having merit. However, while concern with economic inequality is likely to increasingly motivate social policy discussions, the programs ultimately developed will also reflect existing constraints and conditions. Again, a number of recent developments reflect the legacy of the past decade of social policy--a legacy with which future policy must deal.

An important characteristic of the social policy between 1965 and 1975 is the inconsistency, inefficiency, and inequality of the welfare and income maintenance programs, which were either initiated or extended during this period.[15] As has been increasingly realized, the structure of this set of programs (sometimes generously referred to as an income-support system) has major weaknesses: (1) It is built around specific categories of people, eliminating some poor families completely; (2) A number of programs have state-determined eligibility requirements and benefit levels, and, as a result, equally poor families of the same structure may be treated quite differently depending upon where they live; (3) Because of this variance in the treatment of families, some families with able-bodied nonworking heads may end up with more disposable income than other families with full-time working heads; (4) Taken together, these programs contain incentives that discourage the work effort on the part of recipients, encouraging family break-up, and promoting migration from low- to high-benefit regions; (5) Because of the patchwork nature of the programs, there are serious administrative inefficiencies, and equally serious inefficiencies in the targeting of benefits toward the most needy family units. When held up to generally accepted principles

of efficiency and equity, the social policy legacy of the 1965-1975 decade does not score well.

Because this structure primarily affects those in the very bottom of the income distribution, any policy designed to reduce income inequality must first cope with this legacy. And because its annual budgetary cost (upwards of $100 billion) reaps far fewer distributional benefits than it could if allocated differently, any effort to attain distributional goals must, in a period of constrained public budgets, seek some means of improving the efficiency of this structure.[16] As the enormity of this obstacle to effective income-redistribution policy is realized, the option of drastically restructuring this set of programs is likely to have growing appeal. Implementation of the plans already developed within the federal government to replace a number of existing income-support programs with a comprehensive national income-support program coupled with tax reform designed to reduce special provisions accruing to the rich may well be viewed as an attractive means for effectively and efficiently reducing income inequality. These plans for a comprehensive national program would enhance work incentives, reduce geographical disparities in income support, and decrease the stigma and administrative inefficiencies associated with existing programs. Such a program would replace programs, that currently cost between $40-50 billion, including Aid to Families with Dependent Children, Food Stamps, and Supplemental Security Income, for certain, and perhaps ultimately Public Housing and other housing supplements, Medicaid, Unemployment Insurance, and some Veterans programs. Because any substantial reduction

in income inequality would require more than a replacement of the existing set of income-conditioned programs, some increment in public expenditures financed by tax reform would be required.[17]

However, this overhaul strategy is clearly nonmarginal in its approach and impact and for this reason it is likely to encounter substantial political opposition. The reduction in benefits to some current program beneficiaries, an inevitable result of such large-scale reform, would be the source of some of this opposition. An alternative to this overhaul perspective is the view that the existing potpourri of cash and in-kind transfer programs is an acceptable start toward an effective income redistribution system.[18] The implied strategy could be a source of reduced inequality by extending the coverage and benefit levels of the existing programs, establishing national minima for benefits on state controlled programs, and adding programs (e.g., comprehensive national health insurance, child-care subsidies, and rent supplements) to fill in the gaps of coverage.

In considering the merits of these alternative approaches, three issues seem particularly relevant. First, it must be recognized that any extension of the existing structure that would efficiently target benefits on those at the bottom of the distribution would have to be strongly income-conditioned. Without reform in existing programs, which would be tantamount to their replacement, such an extension would only add to an already serious cumulative tax-rate problem and cause the destruction of work incentives that accompany the program. Also, it should be recognized that the strategy of extending a categorical set of programs is likely to exacerbate the administrative inefficiencies

and overlaps in the existing programs and the discretionary behavior of program administrators, both of which contribute to much of the inequity in the treatment of similar cases. Finally, the two strategies have rather different budgetary implications. A redistribution policy based on extending the current system implies that achieving distributional goals can rest only on additional public budget outlays; the existing $100 billion income-support budget would have to be regarded as a sunk cost, irretrievable for purposes of additional income redistribution. A replacement of the existing system with a comprehensive income-support system (a negative income tax) could achieve any specified reduction in income inequality with a smaller increase in the public budget.

The merits of an income-redistribution policy based on the substitution of a comprehensive national income-support program-cum-tax-reform for several of the existing benefit programs is supported by the growing restlessness in Sweden, Great Britain, the Netherlands, and other Western European countries regarding their extensive and generous income-support systems. These systems (largely formed through the rapid expansion in coverage and real benefit levels of multiple programs) are increasingly criticized because of their rapid budgetary growth, high benefit levels, high tax rates (or notches), and especially because of the difficulty in removing individuals who got on the welfare rolls because of initial eligibility but who subsequently may have become ineligible. The impact of this approach to income support is seen as having serious adverse effects on long-term economic growth, productivity and employment. For these

reasons, arguments for a negative income tax or demogrant scheme or a reduction in the real benefit levels of existing programs are increasingly heard in these countries.[19]

In addition to its implications for future income support legislation, the policy legacy of the last decade will also tend to focus attention on the structure and functioning of the labor market. As has been emphasized, education and training policies of the last decade designed to improve the skills, productivity, and hence, the earnings of low-skill workers, have not been particularly effective. And while the lack of results from such supply-side policies are not easily explained, the internal functioning of the labor market has become a primary suspect. The phenomena that have been suggested as contributing to this failure are characterized in various ways: as job competition rather than wage competition; as labor-market segmentation; or, as simple immobilities, market power, rigidities, or other market failures. These same phenomena are also viewed as contributing to the increase in both the inequality of earned incomes and the unemployment of low-skill workers.[20]

One implication of this view is that the structure of the labor market and the concept of the "job" will become a focus of social policy debates in future years. Because the structural characteristics of existing labor markets and industrial employment arrangements (such as, labor union power and exclusionary practices, minimum wage legislation, restrictions on entry to certain occupations, impediments to

spatial and occupational mobility, racial discrimination, and the nature of "internal" labor markets) are seen as contributing to income inequality, pressures for fundamental changes in these areas are likely to increase and be increasingly reflected in policy. Such reform proposals extend from full worker participation in company decisions on investment, plant location, wage scales, and work arrangements, to more modest suggestions regarding increased on-the-job training, constraints on firm lay offs, and firing decisions and an increased role of seniority-based advancement up specified job ladders internal to the firm.[21]

To the extent that such fundamental change is precluded for political or other reasons, policies designed to supplement the results of the labor market--including wage rate subsidies and earnings supplements--are likely to appear increasingly attractive. Indeed, in the face of continuing high unemployment, the ultimate supplement to the labor market--guaranteed public service employment--is likely to be put forth as an effective policy instrument. In the presence of obstacles to more fundamental changes in the structure of labor markets and employment, such a policy approach can be viewed as a feasible, if second best, way of achieving both employment and distributional goals, in spite of its serious administrative, equity and incentive problems. And, if combined with an earnings supplement for those employed by the private sector and an income guarantee for those not expected to work, such a strategy could lead to both increased employment and decreased inequality.[22]

3. Conclusion

The day of income poverty as a major public issue would appear to be past. Substantial progress toward assuring minimal standards

of food, housing, education, medical care, and income has been made over the 1965-1975 decade. The total social welfare budget (including education) now stands at $250 billion per year. And fewer than 5 percent of the nation's households remain in income poverty when the value of in-kind transfers is taken into account. But serious income inequality remains. Moreover, the distribution of base income (earnings) has become increasingly unequal and demographic trends imply still further inequality. For these reasons, and because antipoverty efforts have blocked the introduction of more efficient policies in numerous functional areas, proposals for a more direct attack on income inequality are likely to increase. Such a focus on inequality (on the gap between high and low incomes) would seem to follow naturally in a decade where a minimum level of economic well-being has by and large been assured for all citizens.

However, because of the legacy of the past decade of social policy, any efforts to reduce income inequality must first cope with the disjointed and uncoordinated set of income transfer and social welfare policies already in place. Both budgetary constraints and problems of work disincentives caused by cumulative income-conditioned benefits argue against the achievement of income-redistribution goals through a simple extension of the existing strategy. While the overhaul of this system with a comprehensive, national, negative income tax accompanied by tax reform would seem to be essential if income distribution objectives are to be effectively achieved, such an approach has and will confront complex political problems.

Finally, because of both the failure of supply-side policies designed to increase the productivity and earnings of low-skill workers and the tendency of the labor markets to increase the spread of earned income between high and low earners, direct efforts to restructure or to supplement labor markets are likely to be increasingly proposed as instruments for achieving redistributive goals. These measures extend from the expansion of worker rights in the management and control of firms to more modest proposals for increased job security and upward mobility within firms to policies which would publically guarantee employment, supplement earnings, or subsidize wage rates.

Obviously, what will, in fact, occur cannot be accurately anticipated. As in the previous decade, many future policy developments affecting income inequality are likely to be both unplanned and unanticipated. If one were inclined to speculate, however, it would not be unreasonable to forecast that, in 1985, analysts will record a modest reduction in income inequality during the 1975-1985 decade and attribute it to some combination of (1) an overhauled and somewhat larger income support system, (2) a reformed federal revenue system resulting in increased effective tax rates on higher income recipients, (3) a significantly expanded public employment policy, and (4) a modest restructuring of labor markets, including a reduction in labor market discrimination against racial minorities and increased experimentation with worker-management consultation on work arrangements. Only time, and the committment of American citizens and their leaders, will tell if even such a mildly optimistic forecast is warranted.

NOTES

1. See the 1974 Presidential Address to the American Economics Association by Walter Heller for a discussion of the basis of and the response to this disillusionment. Walter W. Heller, "What's Right with Economics," American Economic Review 65 (March 1975): 1-26. See also Lance Liebman, "Social Intervention in a Democracy," The Public Interest No. 34 (Winter 1974): 14-29.

2. The domination of this rationale in the early phases of the war on poverty is indicated in the 1964 Report of the President's Council of Economic Advisors, a document with significant impact on subsequent legislation and administrative decisions.

3. For the first time, the 1964 Report of the President's Council of Economic Advisors employed an income-based poverty measure and related it to the proposed macroeconomic policies. The current official definition and measurement of income poverty was first spelled out in 1965. See Mollie Orshansky, "Counting the Poor: Another look at the Poverty Profile," Social Security Bulletin 28 (January 1965): 3-29. It was formally adopted by OEO in 1969. For a discussion on the basis and implications of this definition, see Robert Lampman, Ends and Means of Reducing Income Poverty (New York: Academic Press, 1971). For an appraisal of the effectiveness of macroeconomic policies on the reduction of income poverty, see Robert Plotnik and Felicity Skidmore, Progress Against Poverty: A Review of the 1964-1974 Decade (New York: Academic Press, 1975).

4. While the Federal antipoverty agency (OEO) submitted a five-year antipoverty plan in 1966 which included an income maintenance scheme, it emphasized that a minimum income guarantee "is not the approach taken by this plan."

5. An exception is the Supplemental Security Income program, which beginning in 1974, combined the programs for the aged and

disabled poor and increased benefit levels. A second possible exception was the 1967 AFDC amendments which increased the break-even income level in an effort to reduce work disincentives and, hence, increased the number of families eligible for program benefits. The main motivation of the 1967 legislation, however, was to reduce welfare costs and caseloads.

6. See T. Smeeding, Measuring the Economic Welfare of Low-Income Households: The Anti-Poverty Effectiveness of Cash and Non-Cash Transfer Programs. (New York: Academic Press, forth coming). Correcting census data for income misreporting, mis-specification of the family unit, and the failure to include the recipient value of in-kind transfers, Smeeding finds that for 1972, the official data places the poverty income gap at $12 billion, while the adjusted figures indicate a poverty gap of $5.4 billion, 45 percent of the official figure. Because of the rapid increase in in-kind transfers in recent years, the corrected gap is likely to be less than $4 billion in 1975.

7. For a discussion of the role of this question as a test for national policy during the 1964-1974 decade, see Robert Lampman, "What Does It Do for the Poor--A New Test for National Policy," The Public Interest No. 34 (Winter 1974): 66-82.

8. From 1964 to 1972, social welfare expenditures rose from 25.4 percent of the federal budget to 41.3 percent, and from 4.3 percent of GNP to 8.8 percent. Income maintenance expenditures rose from 20.2 percent of the federal budget to 31.8 percent during the same period. See J.E. Pluta, "Growth and Patterns in U.S. Government Expenditures, 1956-1972," National Tax Journal (March 1974).

9. See Peter Henle, "Exploring the Distribution of Earned Income," Monthly Labor Review 95 (December 1972): 16-27, which documents the changes in male earnings inequality over time. It should be noted that, in addition to equalizing the distribution of income by targetting benefits on the pretransfer poor, the

nation's income support system, through its adverse work incentives, may have contributed to increased earnings inequality.

10. The inequality in the U.S. distribution of final income is substantial in relation to other relatively developed countries, both East and West. According to the calculations of Peter Wiles [(Distribution of Income; East and West (Amsterdam: North Holland; New York: American Elsevier Pub. Co., 1974)], the semidecile ratio (family income per head at the 95th percentile divided by family income per head at the 5th percentile) in the late 1960s was 3 for Sweden; 4.2 for Hungary; 4.5 for Czechoslovakia; 5.9 for the United Kingdom; 6.0 for the Soviet Union and Denmark; 12.0 for Canada; and, 13.3 for the United States.

11. See S. Kuznets, "Demographic Aspects of the Distribution of Income Among Families: Recent Trends in the United States," Yale University Economic Growth Center, Discussion Paper No. 165, 1972. Lester Thurow, in a recent paper, states, "From 1969 to 1973, the participation rate of wives with husbands in the $6000 to $9999 group rose 30 percent, but the participation rate of the $15,000 to $24,999 group rose 52 percent and the participation rates of the $25,000 and up group rose 79 percent." ("Lessening Inequality in the Distributions of Earnings and Wealth," prepared for the Institute of Advanced Study, Princeton, N.J., 1975).

12. This increase in measured income inequality is not inconsistent with a decrease in the inequality of economic welfare. At least some of the choices regarding increased independence and uncoupling of living arrangements may well reflect a relaxation of economic constraints among those at the lower end of the distribution of economic welfare.

13. In nearly all of the areas mentioned, some aspect of private market failure provides the primary rationale for federal policy.

Moreover, in each area, policy is characterized by the provision of subsidies (either through direct expenditures or tax expenditures) in combination with the imposition of public regulations. Economists have often criticized this policy strategy, emphasizing the inappropriate incentives implicit in the subsidies and the waste and ineffectiveness of public rule making. In the cases mentioned, it has been suggested that a pricing approach be substituted for the existing strategy. Effluent charges on pollution discharges, user charges for use of waterways, congestion tolls in recreation areas and highways, full-cost tuition in higher education, and gasoline taxes for energy conservation are examples of such a pricing approach. Supporters of the subsidy or rule-making strategy have emphasized the burden on low-income families of price increases resulting from such charges, neglecting the more hidden costs and burdens on this same group of families from public subsidies or the wastes from inefficient rule making. For further elaboration on this point, see Robert Haveman, "Efficiency and Equity in Natural Resource and Environmental policy," American Journal of Agricultural Economics 55 (December 1973): 868-878.

14. Arthur Okun has stated: "Once those rights that money should not buy are protected and economic deprivation is ended, I believe that our society would be more willing to let the competitive market have its place. Legislators might even enact effluent fees and repeal usury laws if they saw progress toward greater economic equality." [Equality and Efficiency: The Big Tradeoff (Washington: The Brookings Institution, 1975)].

15. See M. Barth, G. Carcagno, and J. Palmer, Toward and Effective Income Support System: Problems, Prospects, and Choices (Madison, Wisconsin: Institute for Research on Poverty, 1974) and the series of studies published from 1973 to 1975, prepared for the use of the Subcommittee on Fiscal Policy of the Joint Economic Committee, entitled Studies in Public Welfare.

16. T. Smeeding, "Measuring Economic Welfare," indicates that in 1972, $102 billion of cash and in-kind transfer led to a $30 billion reduction in the poverty gap. From 1968 to 1972, the increase of more than $30 billion in expenditures on these programs was accompanied by a reduction of only $3 billion in the poverty gap.

17. Options available for tax reform have been set forth in G. Break and J. Pechman, Federal Tax Reform: The Impossible Dream (Washington: The Brookings Institution, 1975).

18. See G. Steiner, "Reform Follows Reality: The Growth of Welfare," The Public Interest No. 34 (Winter 1974): 47-65. See also the overview paper by Irwin Garfinkel, in Barth, Caragno, and Palmer Toward an Effective Income Support System.

19. See, for example, the address by the Former Chancellor of the Exchequer, the Rt. Hon. Anthony Barber in Great Britain's Tax Credit Income Supplement (New York: The Institute for Socio-Economic Studies, 1975); Martin Rein, "Income Maintenance Policy in Sweden, Britain and France," Current History (August 1975); and B. Fishbein, Social Welfare Abroad (New York: The Institute for Socio-Economic Studies, 1975).

20. See P. Doeringer and M. Piore, Internal Labor Markets and Manpower Analysis (Lexington, Mass.: D.C. Heath and Company, 1971); U.S., Congress, Joint Economic Committee, Lowering the Permanent Rate of Unemployment, by Martin S. Feldstein (Washington, D.C.: U.S. Government Printing Office, 1973), and Lester Thurow, Generating Inequality (New York: Basic Books, 1975).

21. While pressures for increased worker participation in decisions heretofore considered to be the right of management have not yet emerged in potent form in the United States, they are very much a part of--indeed dominate--economic policy debates in most Western European

countries. In 1975 and 1976, the issue of worker participation in firm decisions led to political crises in West Germany and the Netherlands. In most Western European countries, significant experiments in the expansion of the rights of workers councils are underway.

22. A policy strategy designed to guarantee a job for all those who are able and willing to work is embodied in the proposed Full Employment and Balanced Growth Act (also known as the Humphrey-Hawkins bill) introduced into the Congress in 1976 with the support of 110 members of the House of Representatives and several senators. This proposal is analyzed in a series of papers in "Planning For Full Employment," The Annals of the American Academy of Political and Social Science, March, 1975. For an analysis of the administrative, efficiency, and equity problems of public employment efforts, see A. Fechter, "Public Employment Programs: An Evaluative Study," Paper No. 19, in the U.S. Congress, Joint Economic Committee, Studies in Public Welfare. Efforts to design a program including earnings supplements, income maintenance, and public employment are found in R. Haveman, 'Work Conditioned Subsidies as an Income-Maintenance Strategy: Issues of Program Structure and Integration" Paper No. 9, 1973; and R. Lerman, "JOIN: A Jobs and Income Program for American Families," Paper No. 19; 1974, both in U.S. Congress, Joint Economic Committee, Studies in Public Welfare.